Polish rates to remain on hold for two years

The sharp GDP slowdown in 4Q19 helps to defend the decision to keep rates on hold. Nevertheless, the central bank's uncritical response to record fiscal expansion will be scrutinised as the expansive fiscal policy is one of the reasons behind the inflation target overshooting

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Poland's central bank decision to keep rates on hold today at 1.5% is hardly surprising.

During the press conference at 4 pm, CET Governor Adam Glapiński should reiterate that keeping rates flat is the most appropriate policy. The strong slowdown in GDP growth in the fourth quarter of 2019 makes the decision less controversial than a month ago. We don't expect the meeting to cause changes in Polish asset valuations.

The decision may cause some controversy around the central bank's earlier uncritical response to record fiscal expansion at the peak of the business cycle as that was one of the reasons behind inflation overshooting the upper ceiling of the central bank's target (2.5%YoY+/-1%). We expect that the Council will respond by reminding that they kept rates flat when inflation was below the range of the CPI target. So now, symmetrically, the Council should refrain from tightening when inflation is overshooting the upper ceiling too.

We maintain our view that flat rates in the coming two years are the most likely scenario

An interesting part of the meeting will be comments on CPI and the factors behind the sharp rise in inflation in December and the following months. In January, MPC members claimed that the majority of the factors behind the increase in inflation were not demand related, and in fact, the rise was caused by garbage collection and other regulated prices. Since then the statistical office has released details of December CPI, which proved that was an incorrect view.

The triggers behind the CPI spike in December 2019 to 3.4% were demand-driven. In 1Q20, we expect CPI to further rise to a peak of 4.5%YoY. The factors driving CPI rise are likely to be regulated prices i.e. energy and garbage collection. But not only that, we expect a strong impact of factors which are within the scope of monetary policy i.e. demand pressure, the rise of labour costs caused by record hike of minimum wages etc.

We maintain our view that flat rates in the coming two years are the most likely scenario. For more Polish macro and market view updates, please see Monitoring Poland publication posted yesterday link

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